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ON THE LEAST DEVELOPED COUNTRIES
Paris, 3 September 1990
Items 8 and 9 of the provisional agenda

REVIEW OF PROGRESS AT THE COUNTRY LEVEL THUS FAR IN THE DECADE

REVIEW OF PROGRESS IN INTERNATIONAL SUPPORT MEASURES AND PARTICULARLY IN OFFICIAL DEVELOPMENT ASSISTANCE

Note by the Secretary-General of the Conference

The Secretary-General of the Conference has the honour to transmit herewith the Assessment of the Socio-Economic Situation in the 1980s of the Least Developed Countries which was prepared by the Chairman of the Preparatory Committee. The Preparatory Committee at its 7th (closing) meeting, on 6 April 1990, agreed that this text be transmitted to the Second United Nations Conference on the Least Developed Countries. 1/

1/ See Report of the Intergovernmental Group on the Least Developed Countries (Preparatory Committee for the Second United Nations Conference on the Least Developed Countries) (A/CONF.147/2), para. 150.

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ASSESSMENT OF THE SOCIO-ECONOMIC SITUATION IN THE 1980s */

Text prepared by the Chairman of the Preparatory Committee

1. In 1981, a Substantial New Programme of Action for the 1980s for the Least Developed Countries (SNPA) was adopted in Paris by the first United Nations Conference on the Least Developed Countries. Its aim was to transform the economies of these countries towards self-sustained development and enable them to provide at least minimum standards of nutrition, health, housing and education as well as job opportunities to their citizens, and particularly to the rural and urban poor. However, despite national and international efforts on behalf of these countries, the social and economic situation of the LDCs as a whole worsened during the 1980s.

2. The SNPA had set an annual GDP growth target of 7.2 per cent for the LDCs: the actual average rate has been 2.2 per cent, with negative growth rates in some. The SNPA had set an annual growth target of 4 per cent for agricultural production: the actual rate has been 2 per cent. The SNPA had called for manufacturing output in the LDCs to grow at an annual rate of at least 9 per cent: the actual rate has been 2 per cent, less than half of the growth rate reached during the 1970s. The SNPA had called for ODA to LDCs to reach 0.15 per cent of donors' GNP: while some donors achieved this target, or doubled their ODA, the average contribution represents 0.09 per cent of their total GNP. At the same time, the marginalization of the LDC group in the world economy has in fact become more accentuated, with their share in world exports amounting to merely 0.3 per cent in 1988, as compared to 1.4 per cent in 1960.

3. But there have been a few exceptional cases; several LDCs managed to achieve GDP growth rates above the rate of population growth. In a handful, agricultural or manufacturing output rose at relatively rapid rates. In a few, gross domestic savings rates exceeded 10 per cent. None the less, apart from the fact that in these cases non-traditional items were their main source of foreign exchange earnings, these LDCs do not present any other major common characteristic, be it continental location, size of the country, geographical situation, environmental strength, or even relative weight of the debt and debt-service burden.

4. In sum, therefore, the 1980s can be considered in general as a period of setbacks. Most LDCs have had to cut back imports and to undergo a process of painful adjustment with austerity. The fall in net investment (to about one quarter of its level at the beginning of the decade) and the deterioration of productive capacity and physical infrastructure have impaired LDCs' ability to

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*/ This text, together with the amendments proposed by the Group of 77, members of Group B, and China - annexed to the text as an integral part of this assessment - is transmitted to the Second United Nations Conference on the Least Developed Countries.

resume growth and development and to meet the basic needs of their population. Their serious economic problems have been aggravated, and the modest gains of past economic development eroded. Particularly worrying was the rapid deterioration in the social conditions in the LDCs, where there has been an increase in the absolute number of illiterates and a rise in the incidence of child malnutrition. On the other hand, there was some improvement in indicators of average life expectancy at birth, infant mortality and immunization coverage.

5. There was a broad consensus on the factors which contributed to this worsening state of affairs. These included national problems, including the inter-action of population growth, poverty and environmental degradation; the problems associated with the design and implementation of structural adjustment problems; natural disasters; and adverse external conditions, such as depressed commodity prices, difficulty of access to markets and lower-than-expected aid flows.

I. NATIONAL POLICIES AND MEASURES

6. Fundamental to the problems faced by the LDCs in achieving sustained long-term growth and sustainable development in the 1980s were rigidities in their economies, fiscal imbalances, monetary (and in some cases political) instability and pricing policies. The experience gained in implementing development plans to transform the social and productive basis for development confirmed the need to improve macro-economic policies, implementation mechanisms and institutions, and to put in place policy measures which would enable LDCs to adjust better to external shocks.

7. For many of the LDCs only one or two sectors contributed to economic growth, domestic revenue and foreign exchange earnings, so rendering their economies heavily dependent on, and vulnerable to adverse changes in, the international economy. To achieve broad-based growth, LDCs therefore needed to diversify their productive bases - a process which required structural change, and corresponding capital inputs, which were not available domestically, nor in many cases forthcoming from foreign private investment.

A. Structural adjustment programmes

8. Many LDCs introduced structural adjustment programmes particularly in the latter part of the decade. These were usually supported by IMF and/or the World Bank, in order to achieve short-term economic stabilization and to promote long-term development. However, the success rate in the 1980s was mixed. A number of these programmes could not be implemented fully or in a timely fashion, for a number of reasons. These include domestic constraints in early programmes, inadequate attention to the specific developmental characteristics of individual LDCs, and too much emphasis on measures to restore economic and financial stability, with too little on the need to maintain an essential minimum of investment in key areas. More recent structural adjustment programmes, profiting from this experience, are showing more promise, although the benefits of these programmes have yet to be fully realized and evaluated.

9. The expectations of stimulating traditional exports, inter alia through devaluation, have not materialized mainly because of over-supply conditions for the commodities concerned in the world market. While some efforts were made to increase government revenue by reforming the tax system and increasing the efficiency of collection, these objectives were more difficult to accomplish than expenditure cuts, particularly on development investment and social services.

B. Agriculture

10. Agriculture, the most important sector of the economies of the LDCs, played a key role in providing food, employment, raw materials for industry, and export revenues. While some progress was noted, agricultural performance during the 1980s was generally disappointing, since food production lagged behind population growth in many cases. The reasons for this included market, price and land-reform policies, natural disasters (flood, drought, locusts); bottle-necks in transport, seeds and fertilizers; and shortage of credit. External trade restraints, discussed later, were also a serious deterrent to agricultural production and diversification. These factors also affected rural development plans adversely.

C. Human resources

11. In most LDCs, the high rate of population growth was a fundamental problem adversely affecting efforts to alleviate poverty, the efficient allocation of resources, the adequacy of social services, food security and the quality of the natural environment. During the 1980s, limited investment led to cuts in expenditure on health and education which often weighed hardest on the most vulnerable groups, such as children, the aged and the urban and rural poor. The experience of this period also underscored the importance of adequate participation in the decision-making process at all levels, thus respecting the rights of the people and allowing their natural talents to flourish.

D. Role of women

12. Despite the efforts undertaken by various national and international bodies, women continued to face the following obstacles which prevented them from being full agents and beneficiaries of development, such as: attitudes which tended to perpetuate the inferior status of women; the unequal access of women to education, training, employment, earnings and to the means of production; the inadequate participation of women in decision-making; and inadequacies in government policies and structures with regard to the integration of women in development.

E. Environment

13. Sound environmental management in the LDCs during the 1980s also suffered, largely on account of lack of resources devoted to this purpose. In the majority of LDCs, most of the pressing environment problems resulted directly from endemic poverty and population pressure. These have often compelled the poor to adopt unsound farming, grazing and fishing methods, or to settle on ecologically fragile marginal lands. To these may be added a general low level of awareness among the people in LDCs of the issues relating to environment, particularly in rural areas.

F. Natural disasters

14. Natural disasters continued to cause heavy losses of human lives and property, with particularly severe and lasting impact on the national economies of the LDCs. Where natural disasters occurred, effort was often concentrated on immediate disaster relief without fully addressing the requirements of long-term development, including disaster prevention measures.

G. Institutional and physical infrastructure

15. Eighty per cent of the population of the LDCs lives in rural areas. The diminishing capacity of the agricultural sector to sustain a growing population triggered a rapid urbanization process, placing an unbearable burden on the urban infrastructure. Income redistribution, land reform and decentralization were viewed as policy options based exclusively on equity considerations, rather than as inescapable development imperatives, having profound efficiency implications. Some LDCs had begun decentralization programmes at the village and district levels, and administrative reforms had been launched to revitalize public sector operations and staffing.

H. The enterprise sector

16. During the 1980s, private sector development began to play an increasing role despite the lack in many cases of an appropriate legal and institutional framework for the conduct of private entrepreneurship. There was greater recognition that the operation of public enterprises in the LDCs and the role of private initiative and competition should be approached in a balanced and pragmatic manner. Measures have been taken to improve the efficiency of the parastatal sector including reducing subsidies, but given the weakness of many institutions, further sustained efforts will be required. In some cases, programmes of divestiture have been implemented, but have encountered constraints owing to the small size of the investing public and the undeveloped nature of capital markets, associated with the low level of domestic savings and the lack of foreign investment.

II. EXTERNAL ENVIRONMENT

A. Trade

17. In the field of trade, the international economic environment of the 1980s has been difficult especially for the LDCs, given the heavy dependence of most LDC economies on the export of a handful of commodities. With their very weak manufacturing base, exports were almost exclusively of unprocessed primary commodities. The prevailing trend over the 1980s of a decline in world prices for raw materials of interest to the LDCs weakened the LDCs' export earnings and their import and debt-servicing capacity. Since prices of goods imported by the LDCs continued to rise, the terms of trade of the LDCs worsened significantly, causing a significant trade loss. The two main international compensatory financing schemes, the IMF Compensatory and Contingency Financing Facility (CCFF) and the EEC STABEX arrangement (enlarged to include the non-ACP LDCs) helped to reduce the adverse impact on many LDC economies, but coverage of such schemes was limited. Further, the IMF-CCFF has in recent years been less used on account of the conditionalities attached to it and the non-concessional terms it provides.

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18. Special tariff preferences have been granted to LDCs and extended during the 1980s. However, trade barriers have affected actual and potential exports and discouraged diversification. Thus, certain LDC exports (especially textiles, vegetable oils, tobacco and sugar) faced tariff and non-tariff barriers in various parts of the world. In addition, some LDCs were excluded by certain importing countries from the full benefits of the generalized system of preferences (GSP) and the "Special measures in favour of LDCs" adopted at the Tokyo Round. Moreover, consumer prices for tropical products have been kept relatively high in GSP donor countries through the application of high internal taxes. And in a large number of GSP schemes, semi-processed forms of products tend to be subject to considerably higher tariffs than the primary form, with ensuing disincentives for LDCs to process primary products for exports. Furthermore, more than 15 per cent of LDC exports were subject to various non-tariff measures, especially clothing. Many LDCs lacked the expertise to derive full benefit from the various GSP schemes. Others, while aware that their products could find additional markets, lacked the resources to improve the quality and appearance of such products to the required standard. Moreover, co-operation between the LDCs and other developing countries, particularly at regional and subregional levels, did not develop as rapidly as hoped.

B. Resource flows

19. The 1980s have been marked by a slow-down in the rate of increase of ODA and the drastic fall in private flows such as export credits and direct investment, with a virtual stoppage of commercial lending. As LDCs' resource needs grew substantially during that period, in particular in connection with additional financial requirements to support rehabilitation and adjustment programmes and growing debt-service obligations, the volume of ODA has been generally insufficient, taking into account the virtual disappearance of private flows. Although a number of donor countries met or exceeded the 0.15 per cent aid target, or increased very substantially their aid to LDCs, donors' ODA/GNP ratio remained at the average of 0.09 per cent throughout the 1980s. Increased ODA flows to the LDCs has been limited by budgetary restrictions in donor countries. In some cases, shortcomings in LDC capacity to implement projects and programmes have hindered further the supply of ODA to certain LDCs in adequate volume. Moreover, some major international institutions have not yet recognized the LDC category and this militates against their designing programmes and measures targeted at this category of countries. On the other hand, new concessional facilities of special importance for LDCs such as the Structural Adjustment Facility (SAF) and Extended Structural Adjustment Facility (ESAF) of IMF and the World Bank Special Facility for Sub-Saharan Africa (SFA), have been set up recently.

20. Among the problems identified by donors and/or recipients were cumbersome procedures, protracted negotations, failure to identify or agree on priorities, too much tied aid, difficulty of meeting local costs and insufficient use of local products or skills. The adverse external environment also affected the ability of the LDCs to generate resource flows internally. The 1980s witnessed a significant depletion in the savings capacity of the LDCs in the face of rising population, declining economic growth and foreign-exchange constraints.

C. LDC debt problems

21. External debt servicing emerged as a major problem for most LDCs during the 1980s. By the end of 1986, total accumulated external debt of the LDCs represented over 60 per cent of their combined GDP; and service payments alone absorbed about 30 per cent, and in many cases as much as 50 per cent, of their exports of goods and services. Over one third of ODA to the LDCs (mainly from IFIs) was provided in the form of loans, albeit on highly concessional terms, with consequent debt implications for the LDCs. Increasing debt-service obligations to multilateral institutions and the weight of debt to private (commercial) creditors constituted a considerable burden on LDCs.

III. CONCLUSIONS

22. During the latter part of the 1980s, major policy reforms were initiated by many LDCs to carry out structural transformation of their domestic economies to reduce or arrest budgetary and/or balance-of-payment deficits, improve the efficiency of utilization of resources, promote mobilization of domestic resources, and enhance the contribution of important sectors of their economies to GDP. More than half implemented stabilization and adjustment programmes with the support of IMF and the World Bank, and others have pursued reform programmes outside the IMF framework. These programmes placed a heavy accent on introducing greater exchange rate flexibility and demand measures geared towards ensuring fiscal and monetary discipline. Many have also adopted major reforms under the aegis of the World Bank, principally directed towards improving the efficiency of public enterprises, expanding the role of private sectors in the domestic economy, and strengthening the directly productive sectors, particularly agriculture, through price incentives. There was an increased recognition of the need for sound domestic policies, including care for the environment and creation of a climate in which individual initiatives could flourish, given adequate and predictable external resources.

23. As regards the donors, a number took steps over the 1980s to improve the terms of their aid, and some also increased its real volume as a percentage of their GDP. Many donor Governments have cancelled ODA debt by means of retroactive terms of adjustment in pursuance of Trade and Development Board resolution 165 (S-IX), and the Toronto measures agreed by all Paris Club creditors marked a step forward in respect of offical debt relief. The EEC STABEX scheme was liberalized and extended to non-ACP LDCs. GSP schemes were introduced in the 1980s, and some aspects of the rules of origin liberalized. Lome Convention preferences - more favourable than those prevailing under the GSP - were applied to about two thirds of the LDCs and are being extended to cover all LDCs.

24. Some improvements were also observed over the 1980s in the mechanisms for distributing and co-ordinating aid. The establishment of the Country Review Mechanism was one of the major achievements of the SNPA. Other improvements were the extension of the time horizon and the inclusion of social considerations in the World Bank Consultative Group process. The new Round

Table format was also welcome, and the policy dialogue at Round Table meetings has led to a better understanding of LDC policy frameworks and a better appreciation of their development assistance needs.

25. The assessment undertaken of the LDCs performance in the 1980s underlines the need for greater commitment to the formulation and implementation of a more coherent action-oriented programme for these countries in the 1990s, based on a strengthened partnership between the LDCs and their development partners. The chapters below set out in detail the proposed content of this programme of action.

Appendix

Amendments proposed by the Group of 77, members of Group B, and China

I. Amendments proposed by the Group of 77

Paragraph 5, last line:

At the end of the paragraph add the following sentence:

Destabilization originating from outside also had an adverse effect.

Paragraph 6, penultimate line:

After mechanisms and institutions put a full stop and delete the rest of the paragraph.

Paragraph 11, penultimate line:

After at all levels put a full stop and delete the rest of the paragraph.

II. Amendment proposed by China

Paragraph 8, 10th line:

After in key areas add as well as inadequate external support.

III. Amendments proposed by members of Group B

Paragraph 5, 3rd line:

After environmental degradation add and policy shortcomings inherited from the 1970s;

Paragraph 6, 2nd line:

Delete (and in some cases political)

Paragraph 6, 4th line:

Before pricing policies insert inappropriate

After pricing policies. insert the following sentence:

Too much weight was put on the role of the State in development rather than on individual initiative and enterprise.

Paragraph 6, last line:

At the end of the paragraph add the following sentence:

Internal civil disturbances and political instability also had an adverse effect, particularly where scarce national resources were diverted to military expenditures.

Paragraph 8, 6th line:

For domestic constraints read insufficient domestic economic and political commitment

Paragraph 9, 1st line:

Delete traditional

Paragraph 9, 2nd line:

For materialized mainly read always materialized

Paragraph 10, 5th line:

For market read marketing

Paragraph 10, 6th line:

After land-reform policies, insert inefficient investment, environmental degradation,

Paragraph 11, last line:

Before rights insert civil and political

Paragraph 16, 3rd line:

For the existing second sentence substitute:

There was greater recognititon that an over-large public sector limited private initiative and competition.

Paragraph 22, 15th line:

After including insert a stable macro-economic framework and a more market-oriented approach,

Paragraph 22, 16th line:

Before environment insert natural

Before climate insert domestic economic and political

Before initiatives insert rights and

Paragraph 22, last line:

For given read as well as the need for